May 21, 2022 – Weekly Review

After four consecutive weeks of sharp losses, gold and silver prices ended the week higher, with gold finishing up by $35 (1.9%) and with silver up by 63 cents (3%). As a result of silverâ??s relative outperformance, the silver/gold price ratio also tightened in by nearly a full point to 84.8 to 1, the first-time silver has outperformed gold in a month. Still, silver is obscenely undervalued relative to gold (and everything else), a circumstance not long for this world, in my opinion.

With world financial markets in everything from stocks and bonds to cryptocurrencies to commodities of all types as volatile as they have been in years, gold and silver price performance year-to-date has been rather underwhelming, with gold up by less than 1% and silver down by nearly 7%. Of course, a YTD measurement misses the essence of gold and silver price performance over the past five months, which featured first a one-month move up in gold of more than $250 from early Feb to new all-time price highs, followed by a complete retracement of that up move over the past month or so. In silver, the price roundtrip was even steeper; a $5 one-month up move from early Feb, to a $6 price smash ended a week ago.

First, let me assure you that price volatility in other world markets played no role in the price performance of gold and silver this year, as there is zero evidence of any correlation between all these markets. Nor did extraordinary developments like a war in Europe for the first time in three-quarters of a century or the highest inflation rates in 40 years. I challenge anyone to make a connection with these factors and gold and silver price performance this year.

Of course, something had to account for the extreme and counter-intuitive price roundtrips in gold and silver this year, and that â??somethingâ?• is the same market force I repeat endlessly on these pages â?? the positioning of gold and silver (and other markets, like copper and platinum) futures contracts on the COMEX, largely between traders referred to as commercials and other non-commercial traders, mostly managed money traders. Admittedly, sometimes I may go a little overboard in declaring COMEX futures contract positioning as the sole driver of price, since gold and silver are important world commodities after all, and common sense would seem to dictate that there canâ??t be just one price influence on such commodities.

But while I may have slightly overstated the case previously about COMEX futures contract positioning being the sole price force in gold and silver, the verifiable evidence of such positioning â?? in the Commitments of Traders (COT) reports â?? overwhelmingly prove that the price roundtrips this year in gold and silver (and other commodity) contracts were solely the result of COMEX positioning. And as clear and compelling as that US Government-published data have been, I fully-understand why so few, but a growing numberof market observers have made the connection between COMEX paper positioning and price movements.

The reason preventing more observers from fully-appreciating the dominating influence on price that COMEX positioning has had on gold and silver prices is failure to see that the actual results always feature the traders actually in control (the commercial traders) as always being able to buy on lower prices and sell on higher prices. Even though this phenomenon has existed for 40 years and has been borne out in just about every COT report over this time, the concept that the participants on one side of the contest (the commercials) could be in such control is a bridge too far for many to accept (including the regulators â?? at least openly).

I understand that the business of the production and consumption of world commodities are complicated and enormous undertakings, involving many tens and hundreds of billions of dollars and millions of people in just about every country in the world. I also understand how most people would find it outrageous for me to suggest that such complicated and enormous undertakings of the production and consumption of world commodities, such as gold, silver, copper and platinum (to name a few) could possibly have a single and dominating pricing force.

Despite the outrage at my contention that COMEX paper contract positioning could dictate the price of world commodities like gold, silver, copper and platinum, thatâ??s exactly what the data in the COT reports indicate. Iâ??m not suggesting that COMEX futures contract positioning has much to do with the actual production or consumption of these commodities, my contention is that the only thing COMEX positioning is responsible for is setting the price of these commodities. Thatâ??s precisely because the actual producers and consumers of these vital world commodities are so caught up in the complexities and intricacies of the business of actual production and consumption that they have ceded concerns about price to others.

As Iâ??ve pointed out previously, the actual producers and consumers of many world commodities are strictly price takers â?? accepting whatever prices are set by other price makers. In the case of silver and gold, the price makers are the commercials on the COMEX.Â What makes the whole situation even more outrageous â?? to say nothing about also being manipulative and illegal â?? is that it is occurring in full view and for decades. Weâ??ve all gotten so used to it that it seems natural. Not only that, but the commercial price control on the COMEX is so dominating that it has become quite easy to predict. Every big down move in gold and silver prices always features significant commercial buying, including in the COT report published yesterday.

Over the past month, on one of the largest and steepest price declines ever, the commercials on the COMEX have bought prodigious quantities of gold and silver contracts. Iâ??ll get into the details momentarily, but how, in a free market, could such a circumstance exist? The answer, in a nutshell, is that it would be impossible were gold and silver in a market free from price control. Even though the evidence of price control in gold and silver has never been more obvious, the idea that it could exist in full view is simply rejected as impossible â?? even by those monitoring the COT data. Go figure.

Please donâ??t interpret my ramblings as negative in any way â?? aside from the ongoing illegality of artificial price control â?? because as a result of the commercial control of prices on the COMEX, the market structure is now among the most bullish I have ever observed. Because of the massive commercial buying on the COMEX over the past month, itâ??s hard to conceive of how gold, silver, copper and platinum prices wonâ??t surge higher in the immediate future. All that remains to be seen, particularly in silver, is whether we get a decent ($5+) rally or the big one.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses finally â??cooled offâ?• a bit, following six or seven weeks of the most intense movement in memory. That is, if you can call this weekâ??s 5.8 million oz turnover as a â??cool offâ?•, since it represents an annualized rate of 300 million oz, close to a 100% annual turnover of total COMEX inventories of 337.8 million oz (down 1 million oz on the week). Holdings in the JPMorgan COMEX warehouse fell by 1.6 million oz to 175.8 million oz.

There was higher than usual turnover in the COMEX gold warehouses this week and total holdings fell by a fairly-steep 0.4 million oz to 35.6 million oz. Holdings in the JPM COMEX gold warehouse fell slightly to 14.48 million oz.

Not much new to report on the delivery status of the COMEX May gold and silver contracts, where gold deliveries continue to outnumber silver deliveries, despite the historical pattern suggesting otherwise. It will be interesting to see if the heavy delivery pattern in gold extends to the start of the traditional June contract where deliveries start in a week or so.

There continued to be outflows of physical metal from the worldâ??s gold and silver ETFs, but late week inflows into GLD, the big gold ETF, suggest the pattern of outflows is about to reverse. I would anticipate a new inflow pattern into the silver ETFs, following the abatement of price declines.

Turning to the all-important COT report released yesterday, once again, expectations of managed money selling and commercial buying were largely fulfilled, with relatively greater positioning change evident in gold â?? given the final penetration of its 200-day moving average over the course of the reporting week ended Tuesday. I found it interesting that after spending only five trading days below its 200-day moving average, gold managed to close above that average the past two trading days. Silver, on the other hand, has spent a full-month well-below all its key moving averages, suggesting to me a clean out with unusually bullish implications.

In COMEX gold futures, the commercials bought and reduced their total net short position by 20,900 contracts to 206,900 contracts. This is the lowest (most bullish) total commercial short position since Feb 1, as gold was embarking on a $250 journey to new all-time highs by early March when the total commercial net short position grew to 306,900 contracts â?? exactly 100,000 contracts (10 million oz) more than the price lows of Feb. Thus, gold prices have made a complete round-trip entirely and uniformly in conformity with COMEX positioning changes and no other factor even comes close. Let me spell this out a bit more.

Gold prices ran higher by $250 as the managed money traders bought and the commercials sold 100,000 COMEX contracts into the highs of early March and then fell from there by the same $250 on the reverse of the 100,000 contracts, which were sold by the managed money traders and bought by the commercials. I donâ??t know how anyone looking at this data could reach any conclusion other than COMEX positioning is the exclusive price force in gold. And yes, I am now projecting another significant price rally in gold as the managed money traders begin to buy and the commercials initiate selling into that buying.

By commercial categories in gold, the 4 big shorts bought back 9400 short contracts, reducing their net short position to 150,054 contracts (15 million oz), the lowest (most bullish) short position since Feb 8. The 5 thru 8 largest gold shorts bought back 800 short contracts and the big 8 gold short position fell to 238,975 contracts (23.9 million oz), also the lowest big 8 short position since Feb 8.Â The raptors (the smaller commercials apart from the big 8) bought 10,700 contracts, increasing their net long position to 32,100 contracts, their largest (most bullish) long position in three years.

On the sell side of gold, the managed money traders were the heavy sellers, in selling 18,632 net contracts, consisting of the sale and liquidation of 8359 long contracts and the new sale of 10,273 short contracts. The resulting managed money net long position of close to 43,000 contracts is among the lowest (most bullish) of the last three years. There was net selling of close to 3000 contracts by the smaller non-reporting traders, also a bullish sign. No change in the gold whaleâ??s recently reduced net long position, still around 15,000 contracts.

On just about every possible â??under the hoodâ?• metric Iâ??m aware of, the gold market structure on the COMEX is screaming â??buyâ?•. I suppose the timetable for the liftoff will only become known after the fact, but any selloffs, should they materialize, should be fleeting and shallow.

In COMEX silver futures, the commercials bought and reduced their total net short position by a further 5700 contracts to 24,800 contracts. Â As hard as it may seem, this is the lowest (most bullish) commercial net short position in nearly three years, even lower than that of the spring of 2020, when silver fell to under $12. Â Who says these COMEX commercial crooks arenâ??t as collusive and in charge as I allege?

The COMEX silver commercials were so collusive in buying as many contracts as they have over the past four reporting weeks and so successful in inducing the managed money traders to sell and sell short, that this weekâ??s report confirmed that a managed money trader had entered into the ranks of the 4 big shorts, most usually an all-commercial affair. Actually, this weekâ??s report confirms the entry by a managed money trader into the ranks of the 4 big shorts likely took place in the prior weekâ??s reporting week, since many more new shorts were established then, rather than in this weekâ??s report. I know this my get a bit confusing, but bear with me.

The big 4 short position actually grew by nearly 2600 contracts this week to 49,976 contracts (250 million oz), even though the only category adding a significant number of new shorts was the managed money category. I would estimate that a big managed money short is in the big 4 category to the tune of around 7000 contracts, meaning that the true exclusively commercial short position is around 43,000 contracts, held by three commercial traders. Accordingly, I would peg the commercial raptor net long position at around 38,000 contracts, quite close to the most bullish position in recent years.

The entry of a managed money trader into the ranks of the 4 big shorts has occurred on rare past occasions and while it does mess up my normal presentation of under the hood details, itâ??s more important to recognize it is a very bullish, if confusing, development. So rather than confuse you even more by trying to present numbers hard to comprehend, let me just focus on why a managed money trader entering into the ranks of the 4 big shorts is so darn bullish.

This is bullish because the managed money traders donâ??t and actually canâ??t take or make delivery, as it is against how they represent their activities to the investors in these trading funds. Were it not for these pre-agreed upon understandings and how the managed money traders have conducted businessÂ for decades, I suppose these traders could conceivably take delivery on long futures contracts â?? seeing as all one needs in order to take delivery is enough money to do so (although the regulators would surely intercede should delivery â??congestionâ?• result).

But in the case of a managed money short making physical delivery on a large short position â?? forget about it. Any such managed money short would be able to make delivery on a big silver short position as you or I or the man in the moon. Being able to make delivery means owning and holding large quantities of physical silver â?? in this case 35 million oz of silver to deliver against the 7000 contracts I estimate a big managed money short is holding. Because it is preordained that any managed money short position (by definition an open position) can and must be closed out by the repurchase of that open short position, the larger such short positions get, the more bullish is it to future prices.

This is why Iâ??ve always referred to managed money short positions as â??rocket buying fuelâ?• because not only must the short positions be bought back and closed out in time, since short positions represent the possibility of unlimited losses should they not be bought back fairly quickly when prices turn higher, there is usually a special urgency to buy the shorts back at the first real signs of higher prices. For instance, should silver prices suddenly spike higher as Iâ??ve recently speculated is likely to occur, most of the 40,000 contracts held short by the managed money traders would be aggressively bought back almost without regard to the prices paid.

I can see and have seen many occasions where the managed money traders may hesitate or be reluctant to add new long positions should prices jump too aggressively, but never have I seen such traders hesitate to buy back short positions when prices jump sharply. Itâ??s the difference between potentially missing out on a new profit opportunity and incurring very large additional real losses on an existing short position.

Iâ??d also mention that the smaller non-reporting traders in silver sold around 2800 net contracts and reduced their net long position to less than 9000 contracts about the lowest level in years and undoubtedly bullish. Â But rather than dwell on the specifics of the new silver positions which may only confuse, let me turn my attention instead to how the realization that the big 4 true commercial short position (held now by 3 commercials) alters my recent revisiting of an old premise, since the 4 big commercial shorts now hold less than I recently represented.

https://silverseek.com/article/revisiting-old-premise

Actually, even though the big commercials hold a bit less short relative to the long positions held by the smaller commercials (the raptors) than I recently reported, I believe my speculative and, admittedly, far out conclusion may be enhanced by the recognition that the big 4 hold slightly less short than I estimated prior to the release of this weekâ??s COT report. It still comes down to whether the 4 big commercial shorts add aggressively to new shorts on the next (and imminent) silver price rally â?? same as it ever was.

In a quite meaningful way, the lower than anticipated big 4 true commercial short position actually raises the stakes and perhaps the motivation of the big shorts to quit manipulating the price of silver as they have for nearly 40 years. My reasoning is that this COMEX silver scam is destined to end, due to the twin force of pressures from the physical market and the growing attention to the actual workings of the COT positioning on the COMEX. So, would it be better for the big commercial shorts to pull the plug on their decades-old COMEX silver scam when they were holding a particularly large or small short position?

It seems to me that the crooked COMEX commercials running this scam would be better off, from their own selfish perspective, in refusing to add new short positions when their existing short positions were small, not large. Of course, Iâ??m looking at this through eyes not criminally-hardened by decades of overt manipulation and Iâ??m sure we would all love to hear from the criminals directly â?? could that be arranged. But alas, weâ??ll have to content ourselves with the criminalsâ?? actions, not words.

Regardless of whether the big COMEX commercial shorts decide to end the ongoing silver manipulation by refusing, for the first time ever, to add sufficient amounts of new silver shorts on the next rally, itâ??s hard to imagine, at the very least, there not being a rally of fairly significant proportions ($5+ and a $200+ rally in gold) â?? based upon the heretofore immutable force of COMEX positioning.

The rally this week did add back some relatively minor additions to the 8 big COMEX gold and silver total losses â?? around $1 billion to a total loss now amounting to $7.9 billion.

Ted Butler

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Silver – $21.75Â Â (200 day ma – $23.63, 50 day ma – $23.99, 100 day ma – $23.86)

Gold – $1845Â Â Â Â Â (200 day ma – $1837, 50 day ma – $1911, 100 day ma – $1885)

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